

Message Text

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /111 W

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R 281906Z JUL 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 1723

INFO USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

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UNCLAS SECTION 01 OF 04 PARIS 19564

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 18087, JULY 11, 1975

1. SURVEYS CONTINUE TO SHOW NO EVIDENCE OF IMPROVEMENT IN ECONOMIC CONDITIONS -

BOTH THE BANK OF FRANCE JULY SURVEY AND THE JULY
REPORT OF THE PATRONAT (FRENCH EQUIVALENT OF NAM) CON-
TINUE TO BE PESSIMISTIC. ACCORDING TO THESE SOURCES,
INDUSTRIAL PRODUCTION IN JUNE WILL BE NO HIGHER THAN
MAY (OFFICIAL INSEE FIGURES NOT YET AVAILABLE); SOME
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SLIGHT IMPROVEMENT IN SOME BRANCHES OF DOMESTIC DEMAND
HAS BEEN OFFSET BY A DECLINE IN FOREIGN ORDERS. THE
BANK OF FRANCE NOTES THAT WHILE ACTIVITY SUSTAINED AT
PRESENT LEVELS IS ASSURED IN PRODUCER GOODS

INDUSTRIES, BOTH INTERMEDIATE GOODS AND CONSUMER GOODS ARE CONFRONTED WITH A MORE UNCERTAIN FUTURE. RETAIL SALES DECLINED BY 1.5 PERCENT IN MAY-JUNE, (OVER MARCH-APRIL) WITH PRODUCTION OF CONSUMER GOODS HOLDING STEADY AT A TIME OF NORMAL SEASONAL UPTURN. RETAIL STOCKS HAVE NOT YET BEEN REDUCED TO A LEVEL LOW ENOUGH TO PROMPT NEW ORDERS. ON THE EMPLOYMENT SIDE, THE SURVEY NOTES THAT IF PRESENT CONDITIONS CONTINUE, EMPLOYERS WILL NOT BE ABLE TO POSPONE CONTEMPLATED LAY-OFFS MUCH LONGER.

THE PATRONAT ADDS THAT, SINCE THE MINOR EVIDENCES OF UPSWING NOTED EARLIER FAILED TO BEAR FRUIT, LITTLE REAL RENEWAL OF ACTIVITY CAN BE EXPECTED BEFORE WINTER, AT BEST. THERE IS LITTLE REASON, THEY NOTE, TO EXPECT A RISE IN HOUSEHOLD DEMAND, WHILE UNUSED CAPACITIES AND FRAGILE CORPORATE FINANCES OFFER LITTLE ENCOURAGEMENT TO NEW INVESTMENT. ON THE FOREIGN TRADE SIDE, EXPORTS TO FRANCE'S "NEW MARKETS" IN EASTERN EUROPE AND AMONG OIL PRODUCERS HAVE PEAKED, WHILE PROSPECTS IN FRANCE'S MAJOR EC TRADING PARTNERS OFFER SLIM HOPES FOR INCREASED EXPORT ORDERS FOR SOME MONTHS TO COME.

FOR THE MEDIUM AND LONGER-TERM, PREDICTIONS OF A RESEARCH ORGANIZATION (BIPE) SPONSORED BY FRANCE'S LARGEST BANKING ORGANIZATION (THE STATE-OWNED CAISSE DES DEPOTS ET CONSIGNATIONS - HOLDER OF ALL FUNDS COLLECTED BY THE GOVERNMENT SAVINGS-BANK SYSTEM) SHOW EVEN GREATER PESSIMISM. THEY CONSIDER NO ECONOMIC REVIVAL AT HOME OR ELSEWHERE UNTIL 1976 AS THE LIKELIEST PROSPECT WITH THE FRENCH ECONOMY TO REGISTER A NEGATIVE GROWTH RATE OF 1.6 PERCENT IN 1975, AND A POSITIVE RATE OF ONLY 3 PERCENT IN 1976. SHOULD FINAL DEMAND CONTINUE TO DECLINE THIS YEAR, BIPE EXPECTS UNEMPLOYMENT COULD HIT 1.3 MILLION. EVEN UNDER THESE CONDITIONS, INFLATION WOULD HOLD AT 10 PERCENT THIS

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YEAR AND RISE TO 11 PERCENT IN 1976, ACCORDING TO THE FORECAST.

2. UNEMPLOYMENT CONTINUES TO RISE -

THE NUMBER OF REGISTERED UNEMPLOYED (SEASONALLY ADJUSTED) AT THE END OF JUNE ROSE TO 877.5, UP FROM 834.9 AT THE END OF MAY. THIS FIGURE CORRESPONDS TO AN UNEMPLOYMENT RATE OF 4 PERCENT, BY EMBASSY ESTIMATE (SEE PARIS A-322 OF JULY 15, 1975). THE LABOR MINISTRY CITES NEW ENTRANTS TO THE LABOR MARKET LEAVING THE SCHOOLS AS THE MAJOR CAUSE OF INCREASE. REGISTERED

JOB-OFFERS AT THE END OF JUNE ROSE TO 114.2 THOUSAND
ONLY SLIGHTLY HIGHER THAN 111.3 THOUSAND IN MAY. THE
TREND IS SLIGHTLY POSITIVE, BUT IT SHOULD BE RECALLED

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 (ISO) W

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R 281906Z JUL 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 1724

INFO USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

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THAT OUTSTANDING JOB OFFERS AT THE END OF JUNE LAST YEAR
TOTALLED 260.8 THOUSAND.

3. GOVERNMENT ECONOMIC POLICIES UNDER "INTENSIVE
STUDY" -

GOF HAS BEEN CONDUCTING WHAT IS BILLED AS A MAJOR
RE-ASSESSMENT OF CURRENT ECONOMIC SITUATION AND POLICY.
PRIME MINISTER CHIRAC HAS JUST COMPLETED A ROUND OF

CONSULTATIONS WITH ALL MAJOR TRADE UNIONS AND EMPLOYERS ASSOCIATIONS. LIMITED INTERMINISTERIAL MEETINGS ON THE ECONOMY WERE HELD ON THE 23RD AND 25TH. PRESIDENT GISCARD AND GERMAN CHANCELLOR SCHMIDT WILL DISCUSS COORDINATION OF INTERNAL ECONOMIC POLICIES ON THE 26TH
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AND 27TH, WHILE A FULL MEETING OF THE COUNCIL OF MINISTERS WILL BE HELD ON THE 29TH, BEFORE GOVERNMENT MEMBERS BEGIN TRADITIONAL AUGUST VACATION. THESE DISCUSSIONS ARE TAKING PLACE IN FACE OF INCREASINGLY PESSIMISTIC PROJECTIONS FOR BOTH INTERNAL AND EXTERNAL SOURCES (OECD), COMBINED WITH STRONG RECOMMENDATIONS FROM THE EUROPEAN COMMISSION FOR ADDITIONAL STIMULATIVE ACTION.

GOVERNMENT HAS ANNOUNCED ITS SATISFACTION WITH "VERY SERIOUS ATMOSPHERE" AND "WILL TO COOPERATION" PREVAILING IN ITS LABOR MANAGEMENT MEETINGS. LABOR PEACE CAN BE EXPECTED FOR THE SUMMER VACATION PERIOD, BUT BOTH WAGES AND JOB CONDITIONS (EARLIER RETIREMENT AGE, REDUCTION OF WORK WEEK) WILL BE NEGOTIATED IN FALL. WHATEVER DEGREE OF SUCCESS MEETINGS IN FACT HAS WAS PROBABLY DUE TO GOVERNMENT'S WILLINGNESS TO ADMIT THAT ADDITIONAL MEASURES WERE NECESSARY AND HENCE POSE QUESTIONS AS TO WHAT SHOULD BE DONE.

PROPOSALS HAVE NOT BEEN LACKING. ON THE MANAGEMENT SIDE, PRESIDENT OF CHAMBER OF COMMERCE HAS SUGGESTED A REBATE TO LOCAL AUTHORITIES ON VALUE ADDED TAX PAID ON CONSTRUCTION. HE AND OTHER BUSINESS REPRESENTATIVES HAVE SUGGESTED SUCH MEASURES AS A PARTIAL TRANSFER OF RESPONSIBILITY FOR WELFARE PAYMENTS FROM ENTERPRISES TO STATE, INCREASED POSSIBILITIES FOR TAX DEDUCTIONS AND DEPRECIATION, ACCELERATION OF REIMBURSEMENT OF TVA AND OTHER GOVERNMENT PAYMENTS TO INDUSTRY, ACCELERATION OF PUBLIC WORKS PROGRAM AND LIMITED INCENTIVES TO CONSUMPTION, ESPECIALLY HOME IMPROVEMENT. LABOR REPRESENTATIVES JOINED IN THE LATTER TWO DEMANDS, WITH STRONGER EMPHASIS ON EMPLOYMENT, PARTICULARLY FOR THE YOUNG; AND MEASURES SUCH AS EARLY RETIREMENT AND SHORTER WORK WEEK.

ALTHOUGH THE JULY 29 COUNCIL OF MINISTERS MEETING WILL ADOPT "DIRECTIVES FOR PREPARATION", NO NEW PROGRAM IS EXPECTED TO BE ANNOUNCED UNTIL THE SEPTEMBER BUDGET PRESENTATIONS.

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4. JUNE TRADE RESULTS SHOW IMPORTS RISING -

FRANCE'S FOREIGN TRADE BALANCE REGISTERED A SURPLUS OF 1.17 BILLION FRANCS IN JUNE (SEASONALLY ADJUSTED FOB-FOB). RELATIVE TO MAY, HOWEVER, IMPORTS SHOWED A CONSIDERABLY STRONGER GROWTH (1.6 BILLION) THAN EXPORTS (1.1 BILLION). EXPLANATION FOR THIS INCREASE IN IMPORTS MIGHT BE THE DECLINE IN IMPORT PRICES DUE TO APPRECIATION OF FRANC. IT IS STILL TOO EARLY TO SUGGEST THIS IS AN INDICATOR OF RISING DEMAND.

FOR THE FIRST HALF OF 1975, FRENCH REGISTERED TRADE SURPLUS OF 5.4 BILLION FRANCS (NON-ADJUSTED) AS OPPOSED TO DEFICIT OF 10 BILLION FOR SAME PERIOD LAST YEAR. WORTH NOTING, HOWEVER, IS THAT GIVEN APPROXIMATE 12 PERCENT PRICE INCREASE BETWEEN TWO PERIODS, 6 PERCENT VALUE INCREASE IN EXPORTS IN FACT CORRESPONDS TO A 6 PERCENT DECREASE IN VOLUME. WHETHER MUCH-HAILED DECLINE OF FRANC'S DOLLAR VALUE WILL COUNTERACT THIS TREND REMAINS TO BE SEEN. FOREIGN TRADE MINISTER SEGARD COMMENTED THAT FRANCE'S TRADE BALANCE REMAINS "FRAGILE".

FRENCH FOREIGN TRADE
(SEASONALLY ADJUSTED IN BILLIONS OF FRANCS,FOB-FOB)

	JAN	FEB	MAR	APR	MAY	JUNE
IMPORTS	19.4	18.8	18.5	17.5	16.0	17.6

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EXPORTS 19.2 20.0 19.3 19.1 17.8 18.8

BALANCE -.15 1.2 0.8 1.6 1.8 1.2

5. ANTI-INFLATIONARY LEVY AGAIN SUSPENDED -

FINANCE MINISTER FOURCADE ANNOUNCED JULY 18 THAT THE SECOND INSTALLMENT OF PAYMENTS DUE UNDER HIS ONCE HIGHLY-TOUTED ANTI-INFLATIONARY LEVY WOULD AGAIN BE SUSPENDED - THIS TIME EVEN FOR COMPANIES CLOSING THEIR FISCAL YEAR DURING THE SECOND QUARTER. OFFICIAL REASON FOR THIS MEASURE, WHICH HAD BEEN CALLED FOR BY BUSINESS REPRESENTATIVES, WAS THAT CONDITION FOR UNCLASSIFIED

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SUSPENSION, A PRICE INCREASE OF NO MORE THAN 1.5 PERCENT OVER THREE MONTHS, "WOULD SOON BE MET". DE FACTO AT LEAST, THIS LEVY, ONCE THE SOURCE OF MUCH DEBATE, IS TURNING INTO A DEAD LETTER.

6. INVESTMENT IN NATIONALIZED INDUSTRY WILL EXCEED 20 BILLION FRANCS THIS YEAR-

THE BOARD OF DIRECTORS OF THE FDES, GOVERNMENT AGENCY FOR PROVIDING FINANCIAL SUPPORT TO INDUSTRY, ANNOUNCED ON JULY 15 THAT TOTAL INVESTMENT OF NATIONALIZED INDUSTRY IN 1975 WILL HIT 20.3 BILLION FRANCS, UP 23.2 PERCENT OVER 1974 (AS OPPOSED TO 12.5 PERCENT ORIGINALLY PREDICTED). FOR 1976 INVESTMENT

SHOULD INCREASE TO 23.8 BILLION FRANCS. FDES
WILL CONTRIBUTE ABOUT 1.5 BILLION FRANCS A YEAR TO
THESE PROGRAMS.

7. MONEY SUPPLY INCREASES ONLY SLIGHTLY IN APRIL -

FRENCH MONEY SUPPLY, BROADLY DEFINED (M2), REGIS-
TERED 663.2 BILLION FRANCS AT THE END OF APRIL' UP
ONLY 0.4 PERCENT OVER END MARCH, THE LOWEST INCREASE
FOR THIS TIME PERIOD IN TEN YEARS. CURRENCY AND DEMAND
DEPOSITS (M1) DECLINED BY 0.8 PERCENT TO 351.3 BILLION
FRANCS, WHILE NEAR-MONIES INCREASED BY 1.8 PERCENT TO
311.9 BILLION FRANCS. FIGURES ARE NOT SEASONALLY
ADJUSTED.

UNADJUSTED DATA ON COMPOSITION OF MONEY SUPPLY
BY SOURCE SHOW NET FOREIGN EXCHANGE RESERVES UP 3.1 PER-
CENT TO FRANCS 40.8 BILLION, CLAIMS ON PUBLIC SECTOR
DOWN 4.3 PERCENT TO FRANCS 65.8 BILLION, WHILE CREDITS
TO ECONOMY WERE AT FRANCS 574.9 BILLION, UP 0.7 PERCENT
OVER END MARCH.

THE TOTAL OF BANK CREDITS WERE REPORTED AS INCREAS-
ING BY ONLY 1.3 PERCENT IN APRIL, ONLY 1 PERCENT AT A
SEASONALLY ADJUSTED RATE.

8. OTHER REPORTS SUBMITTED DURING THE PERIOD -
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TELEGRAMS

18365 GISCARD PROPOSAL FOR SUMMIT
MEETING JULY 16, 1975

18431 RECENT FOURCADE PRESS
QUOTES JULY 17, 1975

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18440 RETURN OF THE FRANC TO THE
"EUROPEAN MONETARY SNAKE" JULY 17, 1975

18602 CONGRESSIONAL INTEREST IN
FOREIGN BANK ESTABLISHMENT
AND CONGRESSIONAL TRAVEL
ON SAME JULY 18, 1975

AIRGRAMS

A-319 FRENCH FOREIGN EXCHANGE
HOLDINGS JULY 11, 1975

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A-322 UNEMPLOYMENT IN FRANCE JULY 15, 1975

A-329 FRENCH FOREIGN EXCHANGE
HOLDINGS JULY 22, 1975

A-336 FRENCH FOREIGN EXCHANGE
HOLDINGS JULY 28, 1975
GAMMON

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